

ANNUAL REPORT
of
THE CINCINNATI AND SUBURBAN
BELL TELEPHONE COMPANY

For the Year 1936



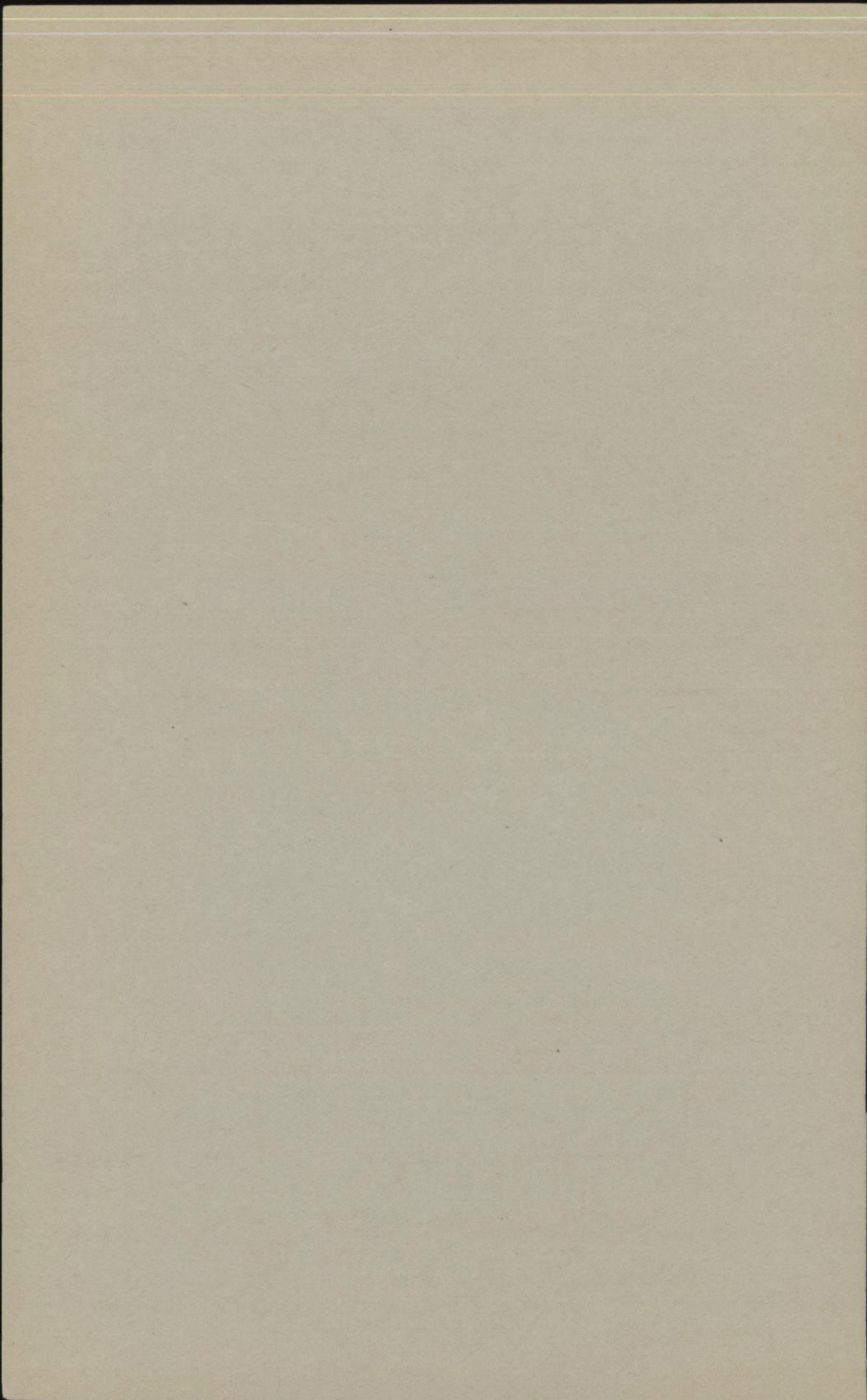
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The Cincinnati and Suburban Bell Telephone Company

DIRECTORS

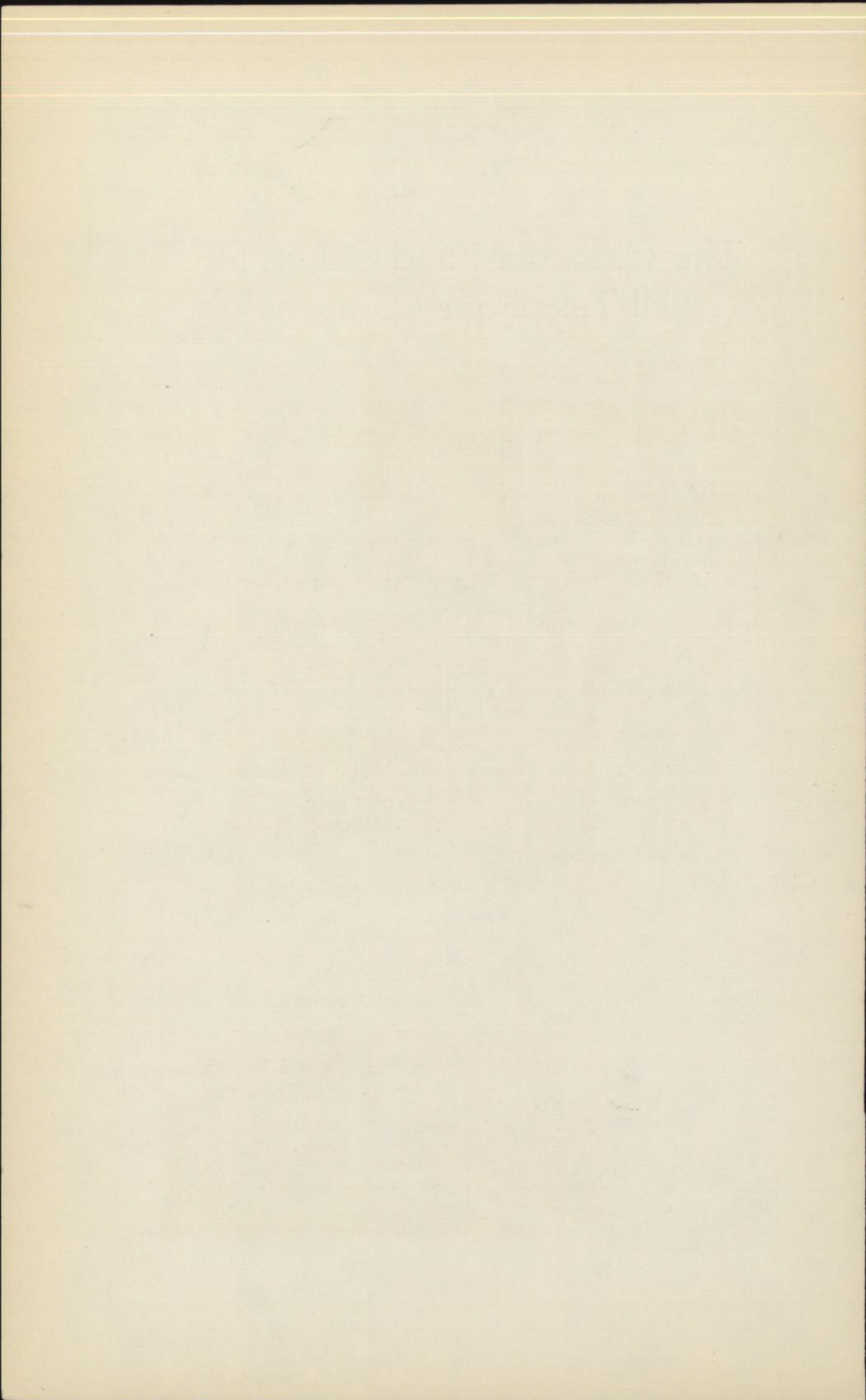
Don M. Arnette	George W. Lewis
Richard R. Deupree	Charles J. Livingood
Charles W. Dupuis	Benjamin T. McBurney
Bayard L. Kilgour, Jr.	Stuart B. Sutphin

OFFICERS

B. T. McBURNEY, *President*

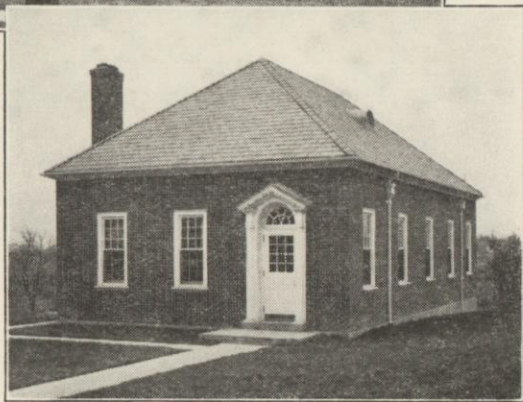
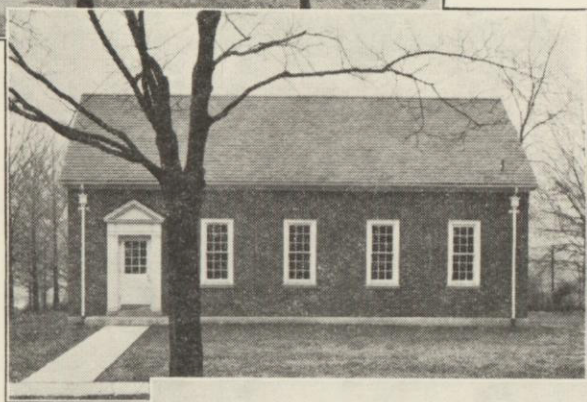
B. L. KILGOUR, JR., <i>Vice President, in Charge of Finance and Accounts</i>	L. C. NOWLAND, <i>Chief Engineer</i>
H. J. BARBER, <i>Vice President, in Charge of Operations</i>	T. E. GREEN, <i>General Commercial Manager</i>
D. M. ARNETTE, <i>Secretary and Treasurer</i>	T. C. REED, <i>General Plant Manager</i>
J. J. BECKER, <i>General Auditor</i>	O. A. FRANK, <i>General Traffic Manager</i>

W. F. ARMSTRONG, *Asst. to President,
in Charge of Personnel Relations*



NEW SUBURBAN CENTRAL OFFICE BUILDINGS

Top—Erlanger Office - - - Erlanger, Kentucky
Center—Delhi Office - - - Cincinnati, Ohio
Bottom—Orchard Office - - - Blue Ash, Ohio



Cincinnati, Ohio, February 1, 1937.

To the Shareholders:

The Board of Directors respectfully submit herewith the Annual Report of this Company for the year 1936.

Continued improvement of business in general and active sales effort on the part of the Company were reflected in a net gain of 10,621 telephones for the year. This compares with a net gain of 7,489 during 1935. The gain for the year was the result of 26,481 installations and 15,860 removals.

On December 31, 1936, the Company had 167,068 stations in service, representing a recovery of 19,033 stations from the depression low reached during January, 1934.

Telephone operating revenues were \$9,440,552.31, an increase of 6.34 per cent. Telephone operating expenses were \$6,051,819.18, an increase of 3.31 per cent. The amount available for dividends was \$2,282,390.26 or \$4.15 per share (\$50 par). Dividends at the rate of \$4.50 per share, amounting to \$2,473,956, were paid during the year, of which \$191,565.74 was charged to surplus.

Toll traffic increased substantially during the year, showing an increase of 15.5% over 1935.

The Company carried forward an extensive program of construction during the year amounting to \$3,712,581, the principal items being distributed as follows:

Land and Buildings.....	\$ 317,847
Central Office Equipment.....	1,440,968
Station Equipment	1,495,887
Exchange Lines	394,840

The new East Dial Central Office referred to in the Annual Report for 1935, was completed on schedule and placed in service December 6, 1936.

Construction of an addition to the Wabash Central Office Building was completed during the latter part of the year, and the new dial equipment is now being installed to be ready for service in June, 1937.

Plans for the conversion of the Avon-University area to dial service have been completed, and work has started on the construction of an addition to the present building to house the dial equipment. This project is scheduled for completion in June, 1938.

The illustrations at the front of this report show three of the attractive suburban Central Offices completed during the year to serve the Erlanger, Delhi and Orchard exchange areas. These offices are equipped with the latest type of manually operated, common battery central office switchboards, and represent a decided improvement over the magneto type switchboard which they replaced.

Arrangements have been made with the Western Electric Company for the construction of a storeroom, repair shop and garage on a single site centrally located in Cincinnati. The completion of this warehouse and garage should make possible considerable savings in the distribution and recovery of materials and supplies, and of motor vehicle operations.

The average number of telephone calls per day was 921,739, being an increase of 46,288 or 5.3% over the year 1935.

The quality of service was maintained at a high standard. Written criticisms were reduced over the previous year, and in spite of a large increase in the number of telephones, oral criticisms increased but slightly.

Relations with employees have been maintained on an eminently satisfactory basis. Management has continued to meet with representatives of the employee group to discuss and adjust amicably such questions as have arisen.

For twenty-three years the Company has maintained a Benefit Plan covering sickness disability and death benefit payments and pensions for the employee body. Because of the Social Security Act, it becomes necessary to modify the Plan to adjust pensions proportionate with payments made by the Company under the Old Age Pensions provisions of the Act.

During 1936 expenditures under the Benefit Plan were as follows:

Service Pensions (paid from Pension Trust Fund).....	\$ 54,642.51
Disability Pensions	2,224.87
Payments After Death of Pensioner	2,534.71
Accident Disability Expense.....	3,011.13
Accident Disability Benefits.....	2,689.52
Sickness Disability Benefits.....	39,554.03
Death Benefits—Accident.....	3,869.64
Death Benefits—Sickness.....	9,359.42
State Insurance.....	1,074.82
Total Expenditures.....	\$118,960.65

Effective July 1, 1936, the charge for handsets was voluntarily reduced from twenty-five cents per month for three years, to fifteen cents per month for three years, being in effect a reduction in the total charge of \$3.60.

On January 15, 1936, toll schedules were revised to provide reduced rates on person-to-person service between 7:00 P. M. and 4:30 A. M., and reduced rates on both person-to-person and station-to-station services on Sundays.

Effective September 1, 1936, substantial reductions were made in toll rates on the longer routes. In addition, overtime charges on person-to-person calls beyond the first three minutes of overtime, were reduced by the application of station-to-station overtime rates after the first three minutes of overtime.

As an experiment, approval was secured for the application of reduced Night and Sunday rates on Christmas Day, December 25, 1936 and New Year's Day, January 1, 1937. The results were very gratifying, the number of messages showing a marked increase over last year.

As a result of an agreement with the Federal Communications Commission, the American Telephone and Telegraph Company made substantial reductions in its toll rates, effective January 15, 1937.

On July 1, 1936, substantial reductions were made in charges for calls to most foreign countries. Since the American Telephone and Telegraph Company inaugurated telephone service to Europe in 1927, there have been three reductions in charges. When service was opened, a three minute conversation between Cincinnati and London cost \$78.00. In 1928, the rate was reduced to \$48.00, and in 1930, the rate was further reduced to \$33.00. The present rate is \$24.00.

During 1936 overseas service was extended to Salvador, Jamaica, Puerto Rico, Bali, Dutch East Indies, Tasmania and Kenya Colony, South Africa. The range of ship-to-shore service from New York was increased from 500 to 1500 nautical miles.

A revised Uniform System of Accounts for Telephone Companies has been prescribed by the Federal Communications Commission, effective January 1, 1937. The principal changes resulting from the new system pertain to the classification of investment in plant pur-

chased; modifications in accounting for depreciation expense for certain items of property; and, in connection with future construction, the inclusion in the plant investment accounts of the related portion of relief and pension costs, such costs having heretofore been treated as current expense.

In the accompanying financial reports the expenses and revenues of the Citizens Telephone Company, which operates the Kentucky properties under lease, have been combined with those of The Cincinnati & Suburban Bell Telephone Company.

The operating records accomplished this year would have been impossible without the continued loyalty and support of the employees. The Board wishes to express its appreciation of their efforts and to congratulate them on the very satisfactory results of the year.

For the Board of Directors,

B. T. MCBURNEY,
President.

FINANCIAL STATEMENTS

The Balance Sheet and Income Statement which follow on pages 10 to 13, inclusive, summarize the accounts of The Cincinnati and Suburban Bell Telephone Company after consolidating therein the assets, liabilities, revenues, expenses and income of the Citizens Telephone Company arising out of its operations under lease of Kentucky properties of The Cincinnati and Suburban Bell Telephone Company. This lease provides that all net earnings of the lessee shall accrue to the lessor as rental, and the financial statements treat the two companies as a single entity.

The accounts of these companies have been maintained in accordance with the Uniform System of Accounts for Telephone Companies prescribed by the Interstate Commerce Commission effective January 1, 1913, amended from time to time, revised January 1, 1933, and continued in effect until January 1, 1937, by the Federal Communications Commission. This Uniform System of Accounts established specific rules in respect of the items to be included in the various accounts which have been prescribed and contained the requirement that plant and other fixed assets, with certain specified exceptions, shall be carried in the accounts at actual cost to the accounting company.

J. J. BECKER,
General Auditor.

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
Comparative Balance Sheet—December 31, 1936 and December 31, 1935

(Consolidating therein assets and liabilities of the Citizens Telephone Company arising out of its operations under lease of Kentucky properties of The Cincinnati and Suburban Bell Telephone Company.)

ASSETS		Dec. 31, 1936	Dec. 31, 1935
INVESTMENTS:			
Telephone Plant.....	\$41,364,528.37	\$39,515,900.64	
Plant and equipment for furnishing service: comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, tools, construction work in progress, etc.			
Miscellaneous Physical Property.....	120,298.07	131,874.02	
Real Estate not now held for telephone purposes.			
Investment in Controlled Company.....	32,936.70	32,936.70	
Capital stock.			
Other Investments.....	19,340.00	22,340.00	
Capital Stock.....\$ 340.00			
Mortgage Notes 19,000.00			
Total Investments.....	<u>41,537,103.14</u>	<u>39,703,051.36</u>	
CURRENT ASSETS:			
Cash	1,800,755.75	1,615,726.86	
Available for current needs.			
Working Funds.....	10,247.56	9,919.02	
Cash held by employees and agents as working funds.			
Temporary Cash Investments.....	2,928,927.96	4,032,396.18	
Funds temporarily invested in U. S. Government securities. (Market quotations \$2,955,437.50 at December 31, 1936.)			
Material and Supplies.....	562,025.24	483,028.73	
Carried principally for construction and maintenance purposes.			
Accounts Receivable.....	680,905.63	618,965.90	
Current accounts due the company for service (less provision for uncollectible accounts), toll settlements, interest, dividends, rents, and sundry miscellaneous items.			
Total Current Assets.....	<u>5,982,862.14</u>	<u>6,760,036.69</u>	
DEFERRED DEBITS:			
Prepayments	49,601.84	49,264.99	
Rents, taxes, insurance, cost of directories, and other expenses prepaid and applicable to period after close of year.			
Other Deferred Debits.....	10,260.10	7,411.34	
Miscellaneous items, the final disposition of which had not been determined at the end of year.			
Total Deferred Debits.....	<u>59,861.94</u>	<u>56,676.33</u>	
TOTAL ASSETS.....	<u>\$47,579,827.22</u>	<u>\$46,519,764.38</u>	

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
Comparative Balance Sheet — December 31, 1936 and December 31, 1935

	Dec. 31, 1936	Dec. 31, 1935
CAPITAL STOCK:		
Common Stock	\$27,488,400.00	\$27,488,400.00
Par value of Common Stock outstanding (Authorized 1,000,000 shares, outstanding 549,768 shares.)		
Premium on Capital Stock	72,756.47	72,756.47
Amount received in excess of par value.		
Total Capital Stock	<u>27,561,156.47</u>	<u>27,561,156.47</u>
NOTES SOLD TO TRUSTEE OF PENSION FUND*	<u>1,482,717.72</u>	<u>1,387,106.76</u>
CURRENT AND ACCRUED LIABILITIES:		
Customers' Deposits and Advance Billing and Payments	250,380.54	235,861.99
Accounts Payable and Other Current Liabilities	806,723.39	425,737.49
Amounts owing for payrolls, supplies, toll settlements, and sundry miscellaneous items which are in process of payment.		
Taxes Accrued but not Due**	974,442.46	1,095,849.52
Dividend declared, payable after close of year	<u>615,740.16</u>	<u>615,740.16</u>
Total Current and Accrued Liabilities....	<u>2,647,286.55</u>	<u>2,373,189.16</u>
DEFERRED CREDITS	<u>41,682.35</u>	<u>29,487.87</u>
Miscellaneous items, the final disposition of which had not been determined at end of year.		
RESERVES:		
Depreciation Reserve	12,760,000.23	11,902,216.34
Provision to meet loss of investment in depreciable plant upon its ultimate retirement from service.		
Other Reserves	23,680.53	28,429.07
Amount set aside for pending accident cases.		
Total Reserves	<u>12,783,680.76</u>	<u>11,930,645.41</u>
SURPLUS:		
Unappropriated Surplus	3,063,303.37	3,238,178.71
Analysis of decrease during 1936:		
Dividends charged against Surplus.\$191,565.74		
Miscellaneous Deductions..... 8,730.29		
Total Deductions..... 200,296.03		
Miscellaneous Additions..... 25,420.69		
Net Decrease.....\$174,875.34		
TOTAL LIABILITIES	<u>\$47,579,827.22</u>	<u>\$46,519,764.38</u>

*Demand Notes held by Trustee as an investment of pension trust funds not presently required to meet pension payments. See page 15.

**The Company has not incurred a surtax on undistributed profits for the year 1936.

J. J. BECKER,
General Auditor.

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY

Comparative Income Statement — Years Ended December 31, 1936 and December 31, 1935

(Consolidating therein revenues, expenses and income of the Citizens Telephone Company arising out of its operations under lease of Kentucky properties of The Cincinnati and Suburban Bell Telephone Company.)

	Year 1936	Year 1935
LOCAL SERVICE REVENUES.....	\$8,155,361.42	\$7,745,846.60
Revenues from local exchange service.		
TOLL SERVICE REVENUES.....	916,820.41	788,193.30
Revenues from long distance and local toll service.		
MISCELLANEOUS REVENUES.....	382,843.42	358,076.20
Revenues from directory advertising, rents and miscellaneous sources.		
TOTAL	9,455,025.25	8,892,116.10
LESS—UNCOLLECTIBLE OPERATING REVENUES.....	14,472.94	14,177.30
Provision made during year for revenues which may be uncollectible.		
TOTAL OPERATING REVENUES.....	\$9,440,552.31	\$8,877,938.80
CURRENT MAINTENANCE	1,521,965.83	1,451,763.51
Cost of inspection, repairs, and rearrangements required to keep the plant and equipment in good operating condition.		
DEPRECIATION EXPENSE.....	1,618,033.29	1,585,177.64
Provision to meet loss of investment when depreciable plant is retired from service, based on rates of depreciation for the different classes of property which are designed to spread this loss of investment uniformly over its service life. Depreciation expense represented 4.33% of depreciable plant in service during 1936 and 4.32% during 1935.		
TRAFFIC EXPENSES.....	1,559,364.60	1,509,683.01
Costs incurred in the handling of messages, principally operators' wages.		
COMMERCIAL EXPENSES.....	435,313.18	419,601.82
Costs incurred in business relations with customers; pay station commissions; also the cost of directories, sales activities, advertising, etc.		
OPERATING RENTS.....	100,712.80	100,627.73
Rents paid for the use of buildings, poles, conduits and other facilities.		

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY

Comparative Income Statement — Years Ended December 31, 1936 and December 31, 1935

(Continued)

	Year 1936	Year 1935
GENERAL AND MISCELLANEOUS EXPENSES:		
Executive and Legal Departments.....	\$ 90,805.35	\$ 92,512.96
Accounting and Treasury Departments.....	306,437.27	264,804.96
Provision for employees' service pensions.....	93,803.00	93,620.00
Employees' sickness, accident, death and disability and other benefits.....	67,182.09	112,405.23
Services received under license contract.....	133,375.05	126,168.95
Other general expenses.....	152,578.08	122,722.68
Less: Expenses Charged Construction.....	27,751.36	20,957.28
Total General and Miscellaneous Expenses..	816,429.48	791,277.50
TOTAL OPERATING EXPENSES.....	\$6,051,819.18	\$5,858,131.21
NET OPERATING REVENUES.....	\$3,388,733.13	\$3,019,807.59
TAXES	1,161,621.67	1,058,637.19
Provision for federal, state and local taxes.		
NET OPERATING INCOME.....	\$2,227,111.46	\$1,961,170.40
NON-OPERATING INCOME.....	\$ 111,847.18	\$ 97,151.62
Dividends and interest, and other miscellaneous in- come, net.		
INCOME AVAILABLE FOR FIXED CHARGES.....	\$2,338,958.64	\$2,058,322.02
INTEREST	56,568.88	52,826.95
Interest charges on debt obligations.		
NET INCOME—AVAILABLE FOR DIVIDENDS	\$2,282,390.26	\$2,005,495.07
Dividends on Common Stock:		
Charged against Income.....	\$2,282,390.26	\$2,005,495.07
Charged against Surplus.....	191,565.74	468,460.93
TOTAL.....	\$2,473,956.00	\$2,473,956.00

J. J. BECKER,
General Auditor.

Cincinnati, Ohio, January 25, 1937.

The Cincinnati and Suburban Bell Telephone Co.,
Cincinnati, Ohio.

We have made an examination of the balance sheet as at December 31, 1936 and the income statement for the year 1936 of The Cincinnati and Suburban Bell Telephone Company, which consolidates therein the assets, liabilities, revenues and expenses of the Citizens Telephone Company as explained on page 9. In connection therewith we have examined or tested accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting records and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying balance sheet at December 31, 1936, and related income statement for the year 1936, set forth, in accordance with the accounting procedure referred to on page 9 and consistently followed by the Company during the year under review, its financial position at December 31, 1936, and the results of its operations for the year 1936.

LYBRAND, ROSS BROS. & MONTGOMERY.

PENSION TRUST FUND

ESTABLISHED BY

THE CINCINNATI AND SUBURBAN BELL TELEPHONE CO.
BANKERS TRUST COMPANY, NEW YORK, N. Y., Trustee

BALANCE IN FUND—DECEMBER 31, 1935.....\$1,387,106.76

Additions to Fund during 1936—

Amount paid in by Company to provide for pension liability accruing in respect of employees in its service\$ 93,803.00

Interest revenue from investments... 56,450.47

TOTAL ADDITIONS.....\$150,253.47

Disbursements for pensions during 1936

to retired employees..... 54,642.51

NET INCREASE IN FUND..... 95,610.96

BALANCE IN FUND—DECEMBER 31, 1936.....\$1,482,717.72

Comprised of—

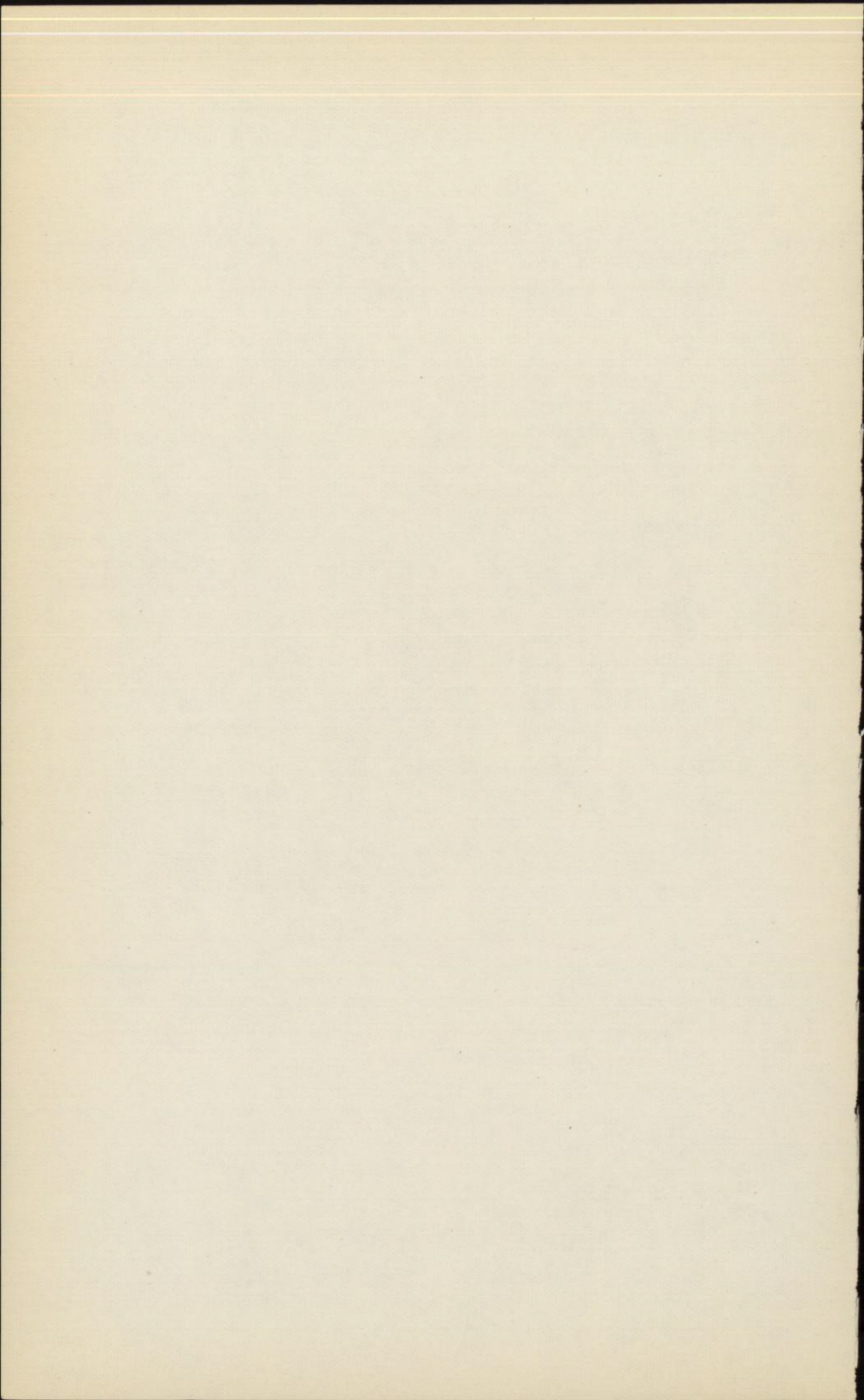
4% Demand Notes of The Cincinnati and Suburban Bell Telephone Company purchased at face value\$1,482,717.72

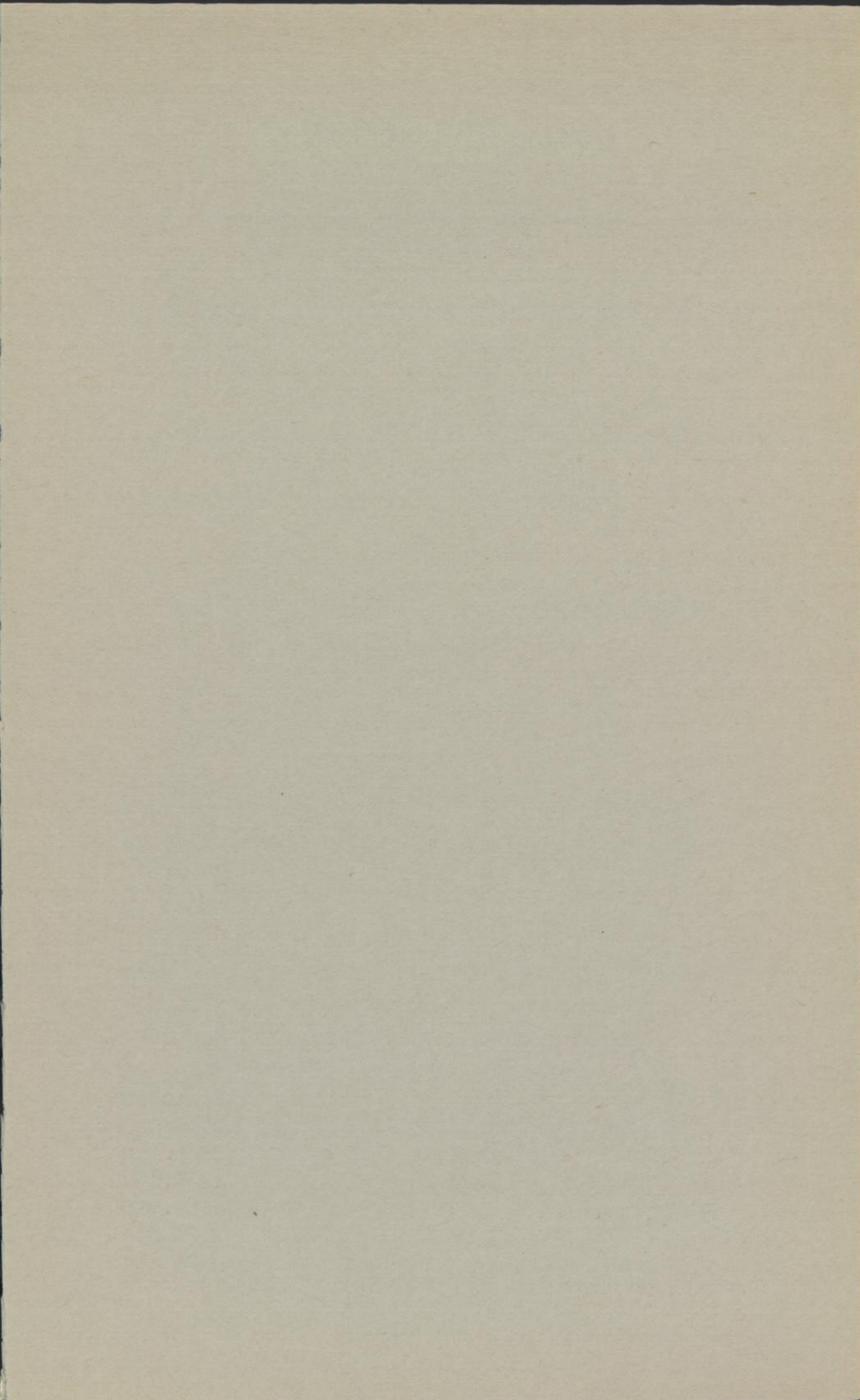
We certify that the above statement of the Pension Trust Fund established by The Cincinnati and Suburban Bell Telephone Company is correct.

BANKERS TRUST COMPANY, *Trustee*

By W. C. MEYERS,
Assistant Secretary.

Dated January 12, 1937.







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